

Oklahoma Data Shows Chronic Borrowing With Payday Loans

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Key Findings:

Since July 1, 2004, licensed payday lenders have recorded every Oklahoma payday loan in the Oklahoma Department of Consumer Credit database. The data shows that payday loan customers use the loans as long-term, expensive credit for daily cash needs. The database reveals:

Frequent borrowing—the average customer takes out 9.4 loans per year.

Rapid borrowing—the majority of payday loans, 78%, are consecutive loans, one made right after another.

Expensive borrowing—in one year, the average customer paid \$428 in finance charges on \$3,131 in advances.

Growing borrowing—from September 2004 to September 2005, loan volume increased 51.9%, growing from 58,831 loans to 89,367 loans per month.

Payday lenders depend on frequent borrowers—customers with 13 or more loans in one year are responsible for 62% of all loans.

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The Oklahoma Legislature authorized payday lending in 2003. The payday lending industry claims that their loans are only for occasional use to meet unexpected or emergency needs. However, a year of data from the Oklahoma payday lending database contradicts this claim. The data reveals that payday lending has resulted in widespread, chronic borrowing where the average Oklahoma customer borrows *often, rapidly* and *at high cost*. The average customer took out 9.4 loans in one year paying \$428 in finance charges on \$3,131 in advances. Overall, the payday lending experience of the average Oklahoma customer indicates that these loans are for regular spending to deal with chronic financial problems, not for occasional emergencies. The following report examines payday lending in Oklahoma in more detail.

Background

Payday loans are high interest, unsecured, short-term loans acquired with a personal check written in anticipation of the borrower's next paycheck. No credit checks are conducted to see if the borrower can afford the loan. As a result, the loans attract low-income and financially vulnerable customers who cannot qualify for or have exhausted other forms of credit.

The Oklahoma Deferred Deposit Lending Act of 2003, as amended in 2004, allows Oklahomans to have two outstanding payday loans at time with a terms ranging between 12 and 45 days. The maximum loan amount is \$500 with finance charges of \$15 per \$100 on the first \$300 and \$10 per \$100 on any amount over \$300. The maximum possible APR under Okla-

homa law is 456% on a \$300, 12-day loan with the maximum finance charge of \$45. The law prohibits direct loan renewals. Customers who take out five consecutive loans must wait until 8 a.m. of the second business day after closing the fifth loan before they can enter a sixth loan. After the third, fourth and fifth consecutive loans, customers can request an extended payment plan.

In addition, the Oklahoma Deferred Deposit Lending Act required the Oklahoma Department of Consumer Credit to establish a deferred deposit database to monitor transactions and enforce the statutory limitations on payday loans. It has proved an effective enforcement tool, as well as an analytical tool for understanding payday lending in Oklahoma. The database became active July 1, 2004.

Like payday lending in other states, the Oklahoma payday lending industry grew rapidly following authorization. Between September 2003 and October 2004, 46 payday lending companies opened 404 payday lending

storefronts. Today there are about 417 payday lending storefronts operated by 54 payday lending companies. These lenders have experienced rapid growth in loan volumes as well. The number of loans made

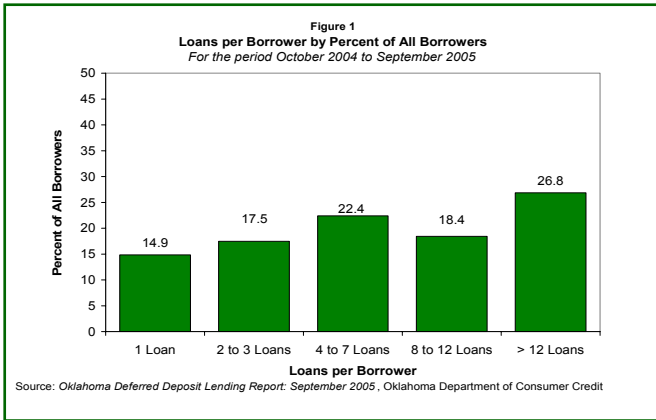
in one month increased from 58,831 loans in September 2004 to 89,367 loans in September 2005, a 51.9% increase.

Borrows Often

Figure 1 (on page 2) illustrates the Oklahoma pattern of payday borrowing. It shows the percent of all customers by loans per customer for the period October 2004-September 2005. Frequent customers, those with 4 or



more loans, represent about 68% of the borrowers. High frequency customers, those with 8 or more loans, are 45% of all borrowers. Over a quarter of customers (26.8%) have taken out more than 12 loans in 12 months.



Borrows Rapidly

Payday customers don't just borrow often. Many borrow as soon as they can take another loan. Frequently, the reason for rapid borrowing is they cannot pay off their last loan. Though Oklahoma prohibits direct loan renewals or rollovers, the allowance of two outstanding loans enables borrowers to use a current advance to pay-off a previous loan. Approximately 78% of Oklahoma payday loans are to customers with at least 1 payday loan open or within 7 days of closing their last loan. Approximately 39% of loans are to customers with three or more consecutive loans. The result is a debt treadmill that makes payday lending especially expensive.

In addition, the two outstanding loan allowance may be the reason that few customers take advantage of extended payment plans as allowed by law. Nearly half of all transactions (46%) qualify for an extended payment option. However, only about 1 in 100 loans eligible for an extended payment plan use the extended payment option.

Either payday loan customers have lots of emergencies and unplanned expenses, or they are using payday loans to meet day-to-day cash needs. As they bear the burden of the high finance charges, their daily cash needs will increasingly include paying off payday loans. Furthermore, the deferred deposit database does not reveal the extent to which payday customers turn to other forms of short-term credit to pay-off their payday loans, thereby worsening their financial situation.

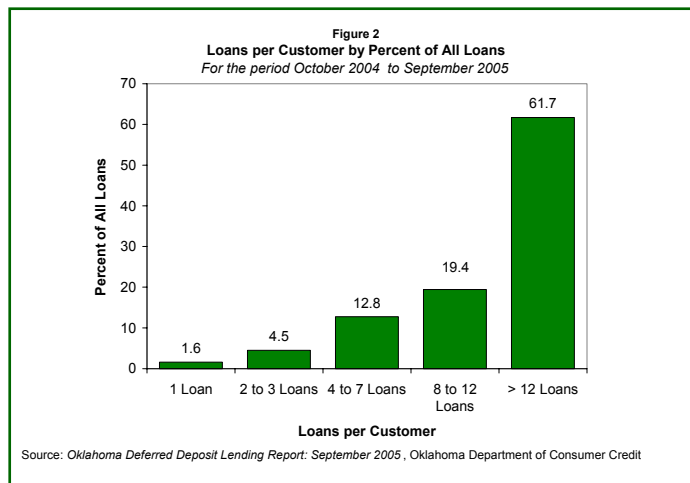
Borrows at High Cost

The average payday loan in Oklahoma costs \$45.53 in finance charges for a

\$332.99 loan. With an average loan term of approximately 19 days, the annual percentage rate (APR) is 263%. APRs decline for loans larger than \$300 because the Oklahoma Deferred Deposit Lending Act decreases the finance charge from \$15 per \$100 on the first \$300 borrowed to \$10 per \$100 after the first \$300 (maximum loan amount is \$500).

Payday Lenders Depend on Frequent Borrowers

Figure 2 below makes clear that payday lenders rely on frequent customers for the majority of their business. Frequent customers, those with four or more loans per year, generate about 94% of all payday loans. High frequency customers, those with 12 or more loans per year, generate about 62% of all loans.



PAYDAY LENDING POLICY RECOMMENDATIONS

Oklahoma's current payday lending protections have proven inadequate in ensuring that borrowers use payday loans rarely for short-term credit needs to meet unexpected or emergency cash needs. Without better payday lending protections, a growing number of Oklahomans will see their wealth stripped and become entrapped in unaffordable debt. The Oklahoma Legislature should consider reforms that would make payday loan borrowing:

- *Less frequent* by allowing only one outstanding loan, rather than two as currently permitted; requiring a waiting period between loans; and limiting the total number of loans that can be opened in a given period.
- *Less costly* by limiting the allowable fee from \$15 per \$100 for the first \$300 borrowed to \$10 per \$100, and increasing the minimum loan term from 12 to 30 days.
- *Better informed* by requiring full advertising disclosure that lists the fees and APR of average loans and warn customers that payday loans are high-cost loans only for occasional use.
- *Less harmful to military service members* by preventing payday lenders from garnishing military wages and salaries, collecting during combat deployments, and from contacting borrower's commanding officers. ‡

